SASKATCHEWAN MINING DEVELOPMENT CORPORATION

1991 ANNUAL REPORT

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 30, 1992

To Her Honour
The Honourable Sylvia O. Fedoruk, O.C., S.O.M.
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of Saskatchewan Mining Development Corporation for the year ended December 31, 1991 in accordance with **The Saskatchewan Mining Development Corporation Act**. The financial statements are in the form approved by the Treasury Board and have been duly reported on by the Corporation's auditors.

I have the honour to be, Madam,

Your obedient servant,

John Penner
Minister Responsible
Saskatchewan Mining
Development Corporation

SASKATCHEWAN MINING DEVELOPMENT CORPORATION

BOARD OF DIRECTORS

Honourable John Penner
Minister Responsible and Chairman

Honourable Dwain Lingenfelter

Honourable Janice MacKinnon

Honourable Carol Carson

Honourable Robert Mitchell, Q.C.

OFFICERS

Donald Ching
President

J. Leslie Wright
Treasurer

Donald Axtell
Secretary

OFFICE

2400 College Avenue
Regina, Saskatchewan
S4P 1C8

92-05628/

SASKATCHEWAN MINING DEVELOPMENT CORPORATION

1991 SUMMARY

Saskatchewan Mining Development Corporation - The Holding Company

Saskatchewan Mining Development Corporation (the Corporation) was established by Order-in-Council #865/74, dated June 4, 1974 and continued under **The Saskatchewan Mining Development Corporation Act, 1977**. The Corporation's initial operating thrust in 1974 was in exploration, particularly for uranium in northern Saskatchewan. The emphasis in the Corporation's uranium operations shifted to development and marketing in the late 1970's and gold exploration programs grew in importance. The Corporation also operated exploration and development projects in other minerals.

In 1988, Cameco Corporation (formerly Cameco - A Canadian Mining and Energy Corporation) (Cameco) was formed through the merger of the Corporation's operations and those of Eldorado Nuclear Limited (Eldorado), a federal Crown corporation. As part of the agreements signed on October 5, 1988, substantially all of the operating assets, contracts and net working capital of the Corporation and Eldorado were transferred to Cameco. As a result of the transfer of assets and a subsequent financial restructuring, the Corporation was transformed into a holding company. The Corporation initially received 6,150,000 Cameco common shares at the time of the transfer which represented 61.5% of Cameco's outstanding common shares. In 1989, the Corporation received an additional 235,267 common shares from a Cameco stock dividend, bringing the total Cameco common shares held to 6,385,267. The Corporation also holds one Class B share of Cameco which gives the Corporation special voting rights regarding the location of the Cameco Head Office.

During 1991, several transactions occurred which affected the Corporation's share investment in Cameco. On May 29, 1991, Cameco's voting common shares were split on a 4 for 1 basis, increasing the Corporation's Cameco shareholding to 25,541,068 shares. The ownership interest remained unchanged at 61.5%. Cameco then issued 10,400,000 voting common shares pursuant to an initial public offering on July 11, 1991. The Corporation's ownership interest in Cameco as a result of this transaction was reduced to 49.2%.

On September 30, 1991, the Corporation sold 5,333,334 Special Warrants by way of a private placement by secondary offering. Each Special Warrant consisted of one Cameco common share and one-half of a Common Share Purchase Warrant (Purchase Warrant). Each full Purchase Warrant entitles the holder to purchase from the Corporation one Cameco common share for $14.75 on or before October 1, 1994. Immediately upon closing, the Special Warrants were exercised resulting in the disposition of 5,333,334 Cameco voting common shares. The sale reduced the Corporation's ownership interest in Cameco to 20,207,734 common shares. The Corporation placed 2,666,667 Cameco common shares in trust under terms of a Custodian Agreement to satisfy the possible exercise of the Purchase Warrants. The Corporation holds the remaining 17,541,067 common shares, representing a 33.8% ownership interest, as an investment in Cameco.

Financial Results for 1991

The Corporation reported a net loss of $166.3 million for 1991 which included a loss on its investment in Cameco shares of $189.2 million. The loss on investment in Cameco consisted of the following: a dilution loss of $62.3 million arising from Cameco's sale of treasury shares in July 1991; a loss of $41.1 million on the sale of Special Warrants in September 1991; a loss of $18.6 million which represented the difference between the book value of the Cameco common shares placed in trust on September 30, 1991 and the exercise price of the Purchase Warrants; and a further loss of $67.2 million arising from an adjustment to the Cameco common shares to an appropriate carrying value.

Cameco reported net earnings of $47.9 million in 1991 of which the Corporation recorded $22.1 million as its share for the year ended December 31, 1991. The Corporation's revenues also include $0.7 million in dividends from Cameco.

During the year, the Corporation repaid $78.3 million of equity advances to Crown Investments Corporation of Saskatchewan with the proceeds received on the sale of Special Warrants and dividends received from Cameco.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

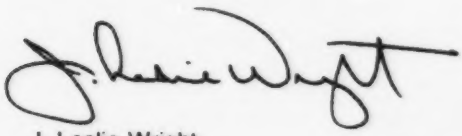
Management has prepared the accompanying financial statements of Saskatchewan Mining Development Corporation (the Corporation) in accordance with generally accepted accounting principles applied on a consistent basis with that of the previous year. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfil this responsibility, the Corporation maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

Ernst & Young, the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.

On behalf of Saskatchewan Mining Development Corporation,



J. Leslie Wright
Treasurer

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Mining Development Corporation as at December 31, 1991 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Ernst + Young

Regina, Canada
February 28, 1992

Chartered Accountants

SASKATCHEWAN MINING DEVELOPMENT CORPORATION

STATEMENT OF FINANCIAL POSITION

As at December 31

	1991	1990
	(thousands of dollars)	
ASSETS		
Current		
Cash	$ -	$ 8
Dividend receivable	2,526	-
Due from Crown Investments Corporation of Saskatchewan	5	352
	2,531	360
Investment in Cameco Corporation (Cameco) (Note 3)	355,072	601,453
	$ 357,603	$ 601,813
LIABILITIES AND PROVINCE'S EQUITY		
Accounts payable and accrued charges	$ 962	$ 612
Province of Saskatchewan's Equity		
Equity advances (Note 4)	522,941	601,201
Deficit	(166,300)	-
	356,641	601,201
	$ 357,603	$ 601,813

(See accompanying notes)

Approved on behalf of the Board:

John Penner, Director

Janice MacFarlane Director

SASKATCHEWAN MINING DEVELOPMENT CORPORATION

STATEMENT OF OPERATIONS AND DEFICIT

For the Year Ended December 31

	1991	1990
	(thousands of dollars)	
Revenue		
Share of Cameco earnings	$ 22,136	$ 56,347
Dividends from Cameco	667	-
Interest income	427	-
	23,230	56,347
Operating expenses	320	134
Earnings before the following	22,910	56,213
Loss on investment in Cameco (Note 5)	189,210	-
Net earnings (loss)	(166,300)	56,213
Reinvested earnings, beginning of year	-	138,801
	(166,300)	195,014
Dividend	-	(195,014)
Deficit, end of year	$ (166,300)	$ -

(See accompanying notes)

SASKATCHEWAN MINING DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	1991	1990
	(thousands of dollars)	
Cash provided by (used in) operating activities		
Net earnings (loss)	$ (166,300)	$ 56,213
Dividends received from Cameco on equity basis	4,385	-
Add (deduct) non-cash items:		
Share of Cameco earnings	(22,136)	(56,347)
Loss on investment in Cameco	189,210	-
	5,159	(134)
Net change in non-cash working capital balances relating to operations	(1,829)	142
Cash provided by operating activities	3,330	8
Cash provided by investment activities		
Proceeds on sale of Cameco shares	74,922	-
Cash provided by (used in) financing activities		
Equity advances received (repaid)	(78,260)	195,014
Dividend paid	-	(195,014)
Cash used in financing activities	(78,260)	-
Net increase (decrease) in cash during the year	(8)	8
Cash, beginning of year	8	-
Cash, end of year	$ -	$ 8

(See accompanying notes)

SASKATCHEWAN MINING DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 1991

1. Accounting Policy

Investment in Cameco Corporation

i) Equity Method

Saskatchewan Mining Development Corporation (the Corporation) owns 17,541,067 voting common shares of Cameco Corporation (Cameco) representing a 33.8% interest. The Corporation accounts for these shares using the equity method whereby the carrying value of the Corporation's investment in Cameco is adjusted for the Corporation's share of Cameco's earnings or losses and reduced by dividends from these shares.

ii) Cost Method

The Corporation also holds 2,666,667 voting common shares of Cameco in trust under conditions further described in Note 3(b). The Corporation accounts for these shares using the cost method. Dividends from these shares are recorded as income when receivable.

2. Status of the Corporation

The Corporation was established by Order-in-Council #865/74 dated June 4, 1974 and continued under **The Saskatchewan Mining Development Corporation Act, 1977**. The Corporation's accounts are included in the annual consolidated financial statements of Crown Investments Corporation of Saskatchewan (CIC).

The Corporation is a Provincial Crown corporation and therefore not subject to Federal or Provincial income tax.

3. Investment in Cameco

	1991	1990
	(thousands of dollars)	
Share investment-equity method (a)	$ 315,739	$ 601,453
Share investment-cost method (b)	39,333	-
	$ 355,072	$ 601,453

a) The Corporation owned 6,385,267 voting common shares of Cameco at December 31, 1990 representing a 61.5% interest. On May 29, 1991, Cameco's voting common shares were split on a 4 for 1 basis resulting in the Corporation owning 25,541,068 voting common shares with no change in the Corporation's ownership interest. On July 11, 1991, Cameco issued 10,400,000 voting common shares from treasury pursuant to an initial public offering thereby reducing the Corporation's ownership interest to 49.2%.

3. Investment in Cameco (continued)

On September 30, 1991, the Corporation sold 5,333,334 Special Warrants by way of a private placement by secondary offering. Each Special Warrant consisted of one Cameco voting common share and one-half of a Common Share Purchase Warrant (Purchase Warrant). Each full Purchase Warrant entitles the holder to purchase from the Corporation one Cameco voting common share for $14.75 on or before October 1, 1994. Immediately upon closing, the Special Warrants were exercised resulting in the disposition of 5,333,334 Cameco voting common shares. This reduced the Corporation's ownership interest in Cameco to 20,207,734 voting common shares. The Corporation placed 2,666,667 voting common shares in trust under terms of a Custodian Agreement to satisfy the possible exercise of the Purchase Warrants as further described in Note 3(b). The Corporation uses the equity method to account for the remaining 17,541,067 unencumbered voting common shares representing a 33.8% ownership interest in Cameco.

The quoted market value of these shares at December 31, 1991 is $236.8 million.

b) The Corporation holds 2,666,667 voting common shares of Cameco in trust to satisfy the possible exercise of the Purchase Warrants sold on September 30, 1991. The holder of each full Purchase Warrant may purchase one Cameco voting common share from the Corporation for $14.75 on or before October 1, 1994. The Corporation maintains beneficial ownership of these shares. Any shares remaining in trust after the close of business on October 1, 1994 will be transferred by the trustee to the Corporation. The Corporation's control over these shares can be terminated at any time by holders of the Purchase Warrants. Therefore, the Corporation accounts for these shares using the cost method.

The quoted market value of these shares at December 31, 1991 is $36.0 million.

c) Included in the investment in Cameco is one Class B share of Cameco purchased for consideration of $1. This share provides the Corporation with the ability to exercise special voting rights with respect to the location of Cameco's head office.

4. Equity Advances

The equity advances received from CIC are non-interest bearing and are repayable at the discretion of CIC. During the year, the Corporation repaid $78.3 million of equity advances to CIC with the proceeds received on the sale of Special Warrants and dividends received from Cameco.

5. Loss on Investment in Cameco

Loss on investment in Cameco was as follows (thousands of dollars):

Loss on issue of shares by Cameco (a)	$ 62,270
Loss on sale of Cameco shares (b)	41,077
Adjustment on transfer of shares to trust (c)	18,613
Adjustment on shares held as an investment (d)	67,250
	$ 189,210

5. Loss on investment in Cameco (continued)

a) Loss on issue of shares by Cameco

On July 11, 1991, Cameco issued 10,400,000 voting common shares from treasury pursuant to an initial public offering. The dilution of the Corporation's investment in Cameco resulted in a loss of $62.3 million.

b) Loss on sale of Cameco shares

The Corporation sold 5,333,334 Special Warrants on September 30, 1991 by way of a private placement by secondary offering as more fully described in Note 3(a). The net proceeds of $74.9 million from the sale were less than the book value of the shares sold, resulting in a loss of $41.1 million.

c) Adjustment on transfer of shares to trust

On September 30, 1991, the Corporation placed 2,666,667 voting common shares of Cameco in trust to satisfy the possible exercise of the Purchase Warrants sold on September 30, 1991. As a result of the exercise feature, during the next three years any appreciation in the value of the 2,666,667 shares held in trust will not accrue to the Corporation. Therefore, the carrying value of these shares has been reduced to the exercise price of $14.75 per share, resulting in a loss of $18.6 million.

d) Adjustment on shares held as an investment

The Corporation has reviewed the status of its Cameco investment with respect to the appropriateness of the carrying value. As a result of this review, the book value of the remaining 17,541,067 Cameco shares held as an investment has been reduced to $18.00 per share to reflect management's current estimate of the loss that is other than a temporary decline. This adjustment resulted in a loss of $67.2 million.

6. Related Parties

Included in these financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and corporations with which the Corporation is related. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms.

Other amounts due to or from related parties and the terms of settlement are described separately in the financial statements and notes thereto.